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**ZTE CORPORATION**

**中興通訊股份有限公司**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 763)**

## **Announcement**

### **Introduction of a Strategic Investor by a Subsidiary and Waiver of Preemptive Subscription Rights by the Company**

*The Company and all the members of the Board of Directors confirm that all the information contained in this announcement is true, accurate and complete and that there is no false and misleading statement or material omission in this announcement.*

To meet the needs of its business development, ZTE Microelectronics Technology Company Limited\* (深圳市中興微電子技術有限公司) (“**ZTE Microelectronics**”), a subsidiary of ZTE Corporation (the “**Company**”), has proposed to enlarge its share capital and bring in National Integrated Circuit Industry Investment Fund Corporation\* (國家集成電路產業投資基金股份有限公司) (“**IC Fund**”) as strategic investor. The Company will waive the preemptive right for subscription and capital contribution to the share capital increase of ZTE Microelectronics (the “**Capital Increase**”).

#### **I. General information of ZTE Microelectronics**

General information of ZTE Microelectronics prior to the transaction is set out as follows:

<b>Name of company:</b>	ZTE Microelectronics Technology Company Limited*
<b>Date of establishment:</b>	28 November 2003
<b>Registered address:</b>	Factory No. 1, Dameisha, Yantian District, Shenzhen
<b>Registered capital:</b>	RMB100 million
<b>Principal businesses:</b>	Design, production and sales of integrated circuits (excluding, franchised, state-controlled and monopolised merchandise); operation of import and export businesses.
<b>Shareholding structure:</b>	ZTE Corporation (90%); Shenzhen Sai Jia Xun Investment Development Enterprise (Limited Partnership)* (深圳市賽佳訊投資發展企業 (有限合夥)) (“ <b>Sai Jia Xun</b> ”) (10%).

Major financial figures of ZTE Microelectronics for the past three and a half years are set out as follows:

Unit: RMB

	2012	2013	2014	Six months ended 30 June 2015
	(Audited)	(Audited)	(Audited)	(Unaudited)
<b>Operating revenue</b>	160,075,798.89	292,979,513.52	3,064,161,187.24	2,812,891,819.60
<b>Net profit</b>	26,227,496.04	128,042,846.02	458,636,108.05	273,297,871.79
<b>Total assets</b>	593,384,619.17	681,883,568.39	1,794,945,753.96	2,523,483,507.16
<b>Total liabilities</b>	438,755,258.79	399,211,361.89	1,053,637,439.41	1,519,745,832.25
<b>Owners' equity</b>	154,629,360.38	282,672,206.50	741,308,314.55	1,003,737,674.92

## II. General information of IC Fund

General information of National Integrated Circuit Industry Investment Fund Corporation\*, the party contributing to the Capital Increase, is set out as follows:

<b>Name of company:</b>	National Integrated Circuit Industry Investment Fund Corporation*
<b>Nature of company:</b>	Joint stock limited company (non-listed)
<b>Legal representative:</b>	Wang Zhanfu (王占甫)
<b>Business license number:</b>	100000000045238
<b>Date of establishment:</b>	26 September 2014
<b>Registered address:</b>	Unit 718, Level 7, Block 52, 2 Jingyuan North Street, Beijing Economic and Technological Development Zone
<b>Principal office:</b>	Level 21, Block C, Staff Quarters, 1 Zhenwumiao Road, Xicheng District, Beijing
<b>Registered capital:</b>	RMB98,720 million
<b>Principal businesses:</b>	Equity investment; investment consultation; project investment and asset management; business management consultation.
<b>Major shareholders:</b>	The Ministry of Finance (25.95%); China Development Bank Capital Co. Ltd.* (國開金融有限責任公司) (23.07%); China National Tobacco Corporation (14.42%); Etown Capital International Investment and Development Company Limited* (北京亦莊國際投資發展有限公司) (7.21%); China Mobile Communications Corporation (中國移動通信集團公司) (7.21%); other shareholders (22.14%).

As none of IC Fund, its substantial shareholders, directors, supervisors and senior management is a connected party of the Company or its top ten shareholders, the Capital Increase does not constitute a connected transaction or a material asset reorganisation under “Measures for the Administration of Material Asset Reorganisations of Listed Companies”\* (《上市公司重大資產重組管理辦法》).

## III. General information of the Capital Increase

According to the business negotiations between the Company and IC Fund, the 100% equity interest in ZTE Microelectronics is valued by IC Fund prior to the investment for the purposes of the Capital Increase at RMB7,600 million (representing a P/E ratio of 16.59 based on the net profit for 2014). IC Fund has proposed to subscribe for the Capital Increase of ZTE Microelectronics with a capital contribution of RMB2,400 million in cash. Upon completion of the Capital Increase, IC Fund, the Company and Sai Jia Xun hold 24%, 68.4% and 7.6% equity interests in ZTE Microelectronics, respectively.

On 23 November 2015, the Company, IC Fund, Sai Jia Xun and ZTE Microelectronics entered into a capital increase agreement and a shareholders agreement in respect of the Capital Increase. Sai Jia Xun has agreed to waive its preemptive rights to the subscription and capital contribution to the proposed share capital increase of ZTE Microelectronics. The main contents of the capital increase agreement and shareholders agreement are as follows:

(I) Main contents of the capital increase agreement

1. Subject of transaction: 24% equity interests in ZTE Microelectronics.
2. Transaction price: RMB2,400 million, of which RMB31,578,947 will be credited to the registered capital and the remaining RMB2,368,421,053 will be credited to the capital reserve of ZTE Microelectronics.
3. Settlement of the transaction price and precedent conditions to settlement: following the fulfillment or, in case of non-fulfillment, waiver in writing by IC Fund of all precedent conditions stipulated in the capital increase agreement (the main conditions being parties to the agreement having received respective internal approvals), the Company shall issue a notice of fulfillment of all precedent conditions to IC Fund accompanied by documents evidencing the same, and IC Fund shall deposit the transaction price to a legal bank account maintained by ZTE Microelectronics on a lump-sum basis within 15 business days from the date of issue of the notice or a later date otherwise agreed by the parties.
4. Registration of the transaction: ZTE Microelectronics shall apply for registration of changes with industrial and commercial administration authorities (including but not limited to the filing of the new articles of association and list of directors nominated by IC Fund with the registration authorities) within 10 business days after the full settlement of the transaction price by IC Fund or a later date agreed by IC Fund in writing.
5. Performance targets and purchase order compensation: ZTE Microelectronics has undertaken, and the Company will procure ZTE Microelectronics, to achieve the following performance targets: continuous growth of revenue of ZTE Microelectronics for the period

from 2015 to 2017 on the consolidated income statement and revenue of ZTE Microelectronics for 2017 on the consolidated income statement not less than RMB 6,480 million. The parties shall jointly determine whether ZTE Microelectronics has achieved the aforesaid performance targets within 20 business days after the furnishing of the 2017 audit report of ZTE Microelectronics based on the 2017 audited financial statements of ZTE Microelectronics. If ZTE Microelectronics fails to achieve the aforesaid performance targets, the Company shall place compensatory orders with ZTE Microelectronics for a compensatory amount equivalent to the difference between the actual revenue of ZTE Microelectronics and the minimum amount of revenue required to meet the performance targets.

6. Conditions for taking effect: the capital increase agreement shall come into effect upon execution by duly authorised representatives of the parties.

## (II) Main contents of the shareholders agreement

1. Corporate governance of ZTE Microelectronics. (1) The company shall institute a general meeting comprising all shareholders to exercise supreme authority of the company. The composition, powers and mechanism for convening and voting shall be determined in accordance with the provisions of the new articles of association; (2) the company shall establish a board of directors comprising 7 directors, 4 of which shall be appointed by the Company, 2 by IC Fund and 1 by Sai Jia Xun. The chairman of the board of directors shall be a director appointed by the Company, while the vice chairman shall be a director appointed by IC Fund. Material investments, material loans and other relevant matters of the company shall require approval of more than three quarters of all directors.

2. First right of refusal. If any shareholder of ZTE Microelectronics intends to transfer its equity interests in ZTE Microelectronics to any third parties in part or in full, other shareholders shall, subject to the provisions of the shareholders agreement, be given priority to acquire the equity interests proposed to be transferred at the price quoted by the transferor to the transferee.

3. Preemptive subscription rights. If ZTE Microelectronics issues equity-based securities of any class or type or conducts any form of capital increase, all shareholders will be entitled to preemptive rights for the subscription of the proposed new equity interests in accordance with the shareholders agreement.

4. Right of sale and put option. If ZTE Microelectronics fails to achieve the progress required for listing in accordance with the provisions of the shareholders agreement, IC Fund shall be entitled to demand the Company to dispose of its equity interests in ZTE Microelectronics in full to any third party not related to IC Fund (“Independent Third Party”) at a price proposed

by such Independent Third Party based on reasonable valuation when such Independent Third Party makes an offer to acquire equity interests in ZTE Microelectronics at such price based on reasonable valuation. If the Company refuses to dispose of its equity interests in ZTE Microelectronics in full, IC Fund shall be entitled to dispose of all equity interests in ZTE Microelectronics held by it then to the Company at the selling price and according to the procedures for sale agreed under the shareholders agreement. The right of sale or put option shall be exercised within 20 years from the date of completion of the transaction. Once exercised by IC Fund, the right of sale or put option shall not be exercised again.

5. Senior rights to liquidation. If ZTE Microelectronics has any distributable assets remaining after the settlement of relevant debts according to regulations, IC Fund shall be entitled to senior rights in the distribution of the remaining distributable assets pursuant to provisions of the shareholders agreement.

#### **IV. Opinion of the Board of Directors (the “Board”) and Independent Non-executive Directors**

##### **1. Opinion of the Board**

The Company has amassed a considerable amount of technologies in the area of integrated solutions for integrated circuits. To further consolidate and enhance its market position, the Company considers it necessary to introduce a strategic investor in order to integrate its strengths and resources. The introduction of strategic capital will allow ZTE Microelectronics to strengthen its research and development capabilities and reserve of core patents and increase the standard of its high-end technologies, which will in turn significantly boost the competitiveness of the Company’s integrated solutions for integrated circuits. Meanwhile, the introduction of a strategic investor will also be conducive to improving the corporate governance structure of ZTE Microelectronics, expedite the expansion of its domestic and overseas markets and sales channels and drive the external sales of the Company’s integrated solutions for integrated circuits and foster new profit growth. As an industrial investor operated in a market-oriented approach, IC Fund has access to abundant industry resources and sources of capital operation. The enlisting of IC Fund as a strategic investor of ZTE Microelectronics will present ZTE Microelectronics with more opportunities for development.

In the course of the Capital Increase, if the Company does not waive the preemptive right for subscription and capital contribution while maintaining 90% equity interests, the Company will be required to contribute an amount of RMB2,160 million based on the price for the Capital Increase. Given the current stage of development of ZTE Microelectronics, the level of industry valuation, the track records of ZTE Microelectronics and the credentials of the

strategic investor to be brought in, the pricing of the equity interests in ZTE Microelectronics in connection with the share capital increase is within a reasonable range. The Board of the Company concurs to the waiver of the preemptive right for subscription and capital contribution to the proposed share capital increase of ZTE Microelectronics.

## **2. Opinion of the Independent Non-executive Directors**

The Independent Non-executive Directors of the Company are of the view that, taking into consideration of the current stage of development of ZTE Microelectronics, the level of industry valuation, its historical track records and the credentials of the strategic investor to be brought in, the pricing of the equity interests in ZTE Microelectronics in connection with the share capital increase is within a reasonable range, and the Capital Increase will not compromise the interests of the Company or its shareholders; the Board of the Company has considered the matter and the related procedures are in compliance with the Articles of Association of ZTE Corporation and other relevant regulations.

## **3. Voting at the Board**

The “Resolution on the Introduction of a Strategic Investor by ZTE Microelectronics Technology Company Limited\*” was considered and approved by a unanimous vote at the Thirty-fourth Meeting of the Sixth Session of the Board of the Company.

## **V. Effect on the Company**

The introduction of IC Fund is an important assurance for achieving the Company’s strategy for integrated circuits. It will help to invigorate the research and development, marketing and management mechanisms of ZTE Microelectronics, increase its investment in research and development, enhance the competitiveness of its products and elevate its status in the industry. ZTE Microelectronics is expected to embark thereafter on a positive track of accelerated development, supply more competitive integrated solutions for integrated circuits and enhance the Company’s overall competitiveness in the market. Moreover, ZTE Microelectronics will remain a subsidiary of the Company which will continue to be reported in the consolidated financial statements of the Company following the completion of the Capital Increase. As such, there will be no material impact on the financial conditions and operating results of the Company.

## **VI. Documents for inspection**

- 1 Resolutions of the Thirty-fourth Meeting of the Sixth Session of the Board of the Company;
- 2 Independent opinion furnished by the Independent Non-executive Directors of the

Company in respect of the aforesaid waiver of rights.

By Order of the Board  
**Hou Weigui**  
*Chairman*

Shenzhen, the PRC  
23 November 2015

*As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Shi Lirong, Yin Yimin and He Shiyong; six non-executive directors, Hou Weigui, Zhang Jianheng, Xie Weiliang, Wang Zhanchen, Zhang Junchao and Dong Lianbo; and five independent non-executive directors, Tan Zhenhui, Richard Xike Zhang, Chen Shaohua, Lü Hongbing and Bingsheng Teng.*

*\* For identification purposes only*